

## Message Text

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INFO OCT-01 ISO-00 L-02 PM-03 TRSE-00 H-01 NSC-05 SP-02

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C O N F I D E N T I A L STATE 258522

E.O. 11652: GDS

TAGS:MARR, TH

SUBJECT:TAX RELIEF FOR DOD CONTRACTORS

CINCPAC ALSO FOR POLAD

REF: A. BANGKOK 17861; B. STATE 186660

1. AS POINTED OUT IN STATE 186660, THE MAIN POINT AT  
ISSUE AS FAR AS THE US GOVERNMENT IS CONCERNED IS THAT  
THERE BE NO CLEARLY IDENTIFIABLE FOREIGN TAXES ON U.S.

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DEFENSE EXPENDITURES WHETHER ON THAI CONTRACTORS OR ON

U.S.-INVITED CONTRACTORS.

2. THE DEPARTMENT AND DOD THUS HAVE NO OBJECTION IN PRINCIPLE IF DOD PROCUREMENT AGENCIES INITIATE PROCUREMENT ACTION TO OBTAIN THE SERVICES PERFORMED BY THE CURRENT CONTRACTORS FROM THAI-REGISTERED FIRMS. HOWEVER, BOTH THE THAI GOVERNMENT AND THE THAI REGISTERED FIRMS CONCERNED SHOULD BE INFORMED THAT IF THEIR BIDS CONTAIN PROVISION FOR IMPORT DUTIES, TURNOVER TAXES, VALUE ADDED TAXES, REGISTRATION TAXES, OR ANY OTHER TAXES DERIVED FROM OUR CONTRACT, THESE ITEMS SHOULD BE STATED SEPARATELY AND WOULD BE ONLY PAID BY DOD UNDER PROTEST WITH THE FUNDS BEING DEPOSITED IN A DESIGNATED BANK ACCOUNT FOR FUTURE

DISPOSITION UPON RESOLUTION OF THIS DISPUTE. A THAI REGISTERED FIRM WHICH DOES NO BUSINESS OTHER THAN ITS CONTRACTS WITH US WOULD ALSO PAY ITS INCOME TAXES INTO SUCH AN ACCOUNT.

3. IN SHORT, WE CANNOT ACCEPT KRIANGSAK'S STATEMENT THAT THE TAX ASPECT IS A MATTER BETWEEN THE CONTRACTOR AND THE RTG AND NEED NOT CONCERN THE USG. WE ARE DEALING WITH A PRINCIPLE WHICH IS EXTREMELY IMPORTANT TO THE CONGRESS AND TO THE USG AS A WHOLE. IT HAS BEEN ACCEPTED BY SUCH GOVERNMENTS, AMONG OTHERS, AS DENMARK (TIAS 2546), GERMANY (TIAS 5351), GREECE (TIAS 2775), ICELAND (TIAS 2295), ITALY (TIAS 2566), LUXEMBOURG (TIAS 2538), THE NETHERLANDS (TIAS 3174), PORTUGAL (TIAS 2784), TURKEY (TIAS 2996), JAPAN (TIAS 4510), KOREA (TIAS 6127), THE PHILIPPINES (TIAS 1775), AND THE REPUBLIC OF CHINA (TIAS 5936). EVERY COUNTRY IN WHICH SIGNIFICANT NUMBERS OF U.S. FORCES ARE STATIONED IN FURTHERANCE OF THE COMMON DEFENSE HAS MADE SOME KIND OF PROVISION FOR TAX EXEMPTION FOR USG PROCUREMENT OF GOODS AND SERVICES IN SUPPORT OF SUCH FORCES. THE EMBASSY MAY WISH TO CONSULT ONE OR MORE OF THE FOREGOING TIAS REFERENCES WITH A VIEW TOWARD FINDING A FORMULA ACCEPTABLE TO THE THAI.

4. WE ALSO HAVE DIFFICULTY ACCEPTING THE STATEMENT THAT RTG PATIENCE IS EXHAUSTED AND THAT KRIANGSAK IS RELUCTANT TO CONFIDENTIAL

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PROVIDE US WITH ALL THAT WE HAVE ASKED WITHOUT OUR MAKING A CORRESPONDING EFFORT. IN THE EXPECTATION THAT KRIANGSAK WOULD BE RESPONSIVE ON THE TAX ISSUE, DOD WAIVED BALPA RESTRICTIONS ON THAILAND IN APRIL 1973 WITH THE RESULT THAT BY JUNE 1974 SOME 100 MILLION DOLLARS IN CONTRACTS WAS HELD BY THAI FIRMS.

5. WE THEREFORE CONTINUE TO BELIEVE THAT YOU SHOULD AT

THE EARLIEST OPPORTUNITY FORMALLY APPROACH THE RTG AT  
THE MINISTERIAL LEVEL (PRIME MINISTER OR FOREIGN MINISTER)  
AND PRESENT OUR CASE AS STRONGLY AS POSSIBLE ALONG THE  
LINES OUTLINED ABOVE AND IN OUR PRIOR INSTRUCTIONS  
CONTAINED IN PARA. 6 OF REF B. WE CONCUR WITH YOUR  
ASSESSMENT THAT WE MUST ATTEMPT TO RESOLVE THIS MATTER AS  
EXPEDITIOUSLY AS POSSIBLE. GIVEN THE TIME CONSTRAINT  
INVOLVED, YOU SHOULD REPORT THE RESULTS OF THE ABOVE-  
MENTIONED MINISTERIAL LEVEL APPROACH NO LATER THAN  
DECEMBER 2, 1974. AFTER RECEIPT OF YOUR REPORT, DOD IN  
COORDINATION WITH THE DEPARTMENT WILL DETERMINE WHAT  
INSTRUCTIONS SHOULD BE ISSUED TO DEFENSE PROCUREMENT  
AGENCIES. INGERSOLL

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## Message Attributes

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